

1978 Annual Report

RONYX
corporation limited



FLEET industries



RONARK developments



RONARK developments



HEAD OFFICE



BRANCH OFFICE



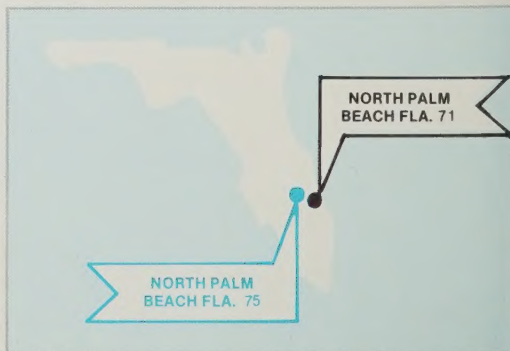
HOUSING UNITS



CURRENT PROJECTS



PENDING PROJECTS



RONYX corporation limited

DIRECTORS

Ronald K. Fraser	President Ronyx Corporation Limited
Samuel Lax	President Lax Iron & Steel Ltd., Hamilton
C. Norman Lucas	Director and Consultant Toronto
Donald G. MacDonald	Vice President and General Manager Ronark Developments, Hamilton
D. Donald C. McGeachy	Director and Consultant London
G. Philip Morphy	Corporate Vice President Ronyx Corporation Limited
J. Frederick Taylor	President J. F. Taylor & Associates Ltd., Ottawa

AUDITORS

Clarkson, Gordon & Co.
Hamilton, Ontario

BANKERS

The Toronto-Dominion Bank

TRANSFER AGENTS

Guaranty Trust Company
of Canada,
Toronto, Ontario
Vancouver, British Columbia

OFFICERS

RONYX corporation limited

Ronald K. Fraser	President
G. Philip Morphy	Corporate Vice President
E. Delbert Hickey	Vice President Legal
Jean E. Spacca	Secretary



FLEET industries Manufacturing Division

Gordon B. Sampson	Vice President and General Manager
Leonard Maloney	Director of Manufacturing
John O'Brien	Manager, Marketing
Roy Dear	Treasurer and Controller



RONARK developments Real Estate Division

Donald G. MacDonald	Vice President and General Manager
Frank T. Wilkinson	Vice President Land Development and Sales
Clifford J. Bryson	Vice President Construction
William C. Hesler	Treasurer and Controller

HEAD OFFICE

20 Hughson Street South, Hamilton, Ontario

MAILING ADDRESS

P.O. Box 800, Hamilton, Ontario L8N 3M8

RONYX corporation limited
FINANCIAL HIGHLIGHTS

	Year ended September 30, 1978			Year ended September 30, 1977		
	(in thousands of dollars except for per share information)					
	Manufacturing	Real Estate	Total	Manufacturing	Real Estate	Total
SALES	\$ 14,388	\$ 13,587	\$ 27,975	\$ 10,286	\$ 16,698	\$ 26,984
NET EARNINGS (LOSS) BEFORE REFLECTING AFFILIATED COMPANIES	\$ 886	\$ (390)	\$ 496	\$ 74	\$ 776	\$ 850
NET EARNINGS (LOSS)	\$ 886	\$ (441)	\$ 445	\$ 74	\$ 785	\$ 859
ORDER BACKLOG	\$ 23,000	\$ 6,100	\$ 29,100	\$ 18,300	\$ 7,600	\$ 25,900
EARNINGS PER COMMON SHARE			\$.18			\$.34
WORKING CAPITAL			\$ 5,837			\$ 4,837
LAND HELD FOR DEVELOPMENT			\$ 2,646			\$ 3,481
NEW FACILITIES AND EQUIPMENT			\$ 107			\$ 212
LONG TERM DEBT			\$ 4,847			\$ 4,262
SHAREHOLDERS' EQUITY AT YEAR END			\$ 6,314			\$ 5,869
COMMON SHARES OUTSTANDING AT YEAR END			2,521,000			2,521,000
COMMON SHAREHOLDERS' EQUITY PER SHARE			\$ 2.50			\$ 2.33

PRESIDENT'S LETTER TO THE SHAREHOLDERS:

Consolidated sales for the year were \$28 million compared to \$27 million for the preceding year with net earnings of \$445,000 compared to \$859,000.

Manufacturing — FLEET INDUSTRIES

Sales increased from \$10.3 million to \$14.4 million and net earnings increased from \$74,000 to \$886,000. This improvement results primarily from a 45% increase in plant activity and a more favourable exchange rate on export shipments.

Fleet is now producing components with continuing follow-on orders expected for the following aircraft:

Boeing	707, 727
Canadair	Challenger
de Havilland	DHC-5, DHC-6, DHC-7
Gruman	A6
Lockheed	L1011, P-3C Long Range Patrol
McDonnell Douglas	DC9-50, DC9-80

Fleet is also manufacturing for
Hughes Aircraft Company Satellite Structures
Spar Aerospace Limited

Employment at the year end was 515 and the backlog was \$23 million with options not yet booked of \$58 million. This represents a solid base for the future since, in almost every case, increased rates of production either have been introduced or are expected. In addition, on the basis of outstanding quotes, Fleet can expect new contracts in the fields of sonar and radar for the Canadian Government (DSS), General Electric, Lockheed, Sperry and Raytheon.

The acquisition of a new Canadian Forces fighter will probably not reflect in work at Fleet in 1979. Negotiations have been under way with all of the bidders and will now be concentrated on the current short list. Fleet is confident of success in getting its share of the offset work and, on the basis of past performance, of being able to handle the new technology which will be involved.

Indicators in the field of aerospace point to a decade of demand seemingly in excess of total existing capacity. The challenge for Fleet will be to expand while maintaining its reputation for excellence.

Real Estate — RONARK DEVELOPMENTS ARKTON CORPORATION LIMITED

On sales of \$13.6 million compared to \$16.7 million for the previous year, a net loss of \$441,000 was sustained compared to a net profit of \$785,000 which included other income of \$561,000 before taxes.

In Ontario, there were 480 units under construction at the year end with contract work accounting for 360, including 240 in London basically at the completion stage. Currently, the company's share of joint venture AHOP townhouses in Sarnia and Kitchener completed and unsold is 43. This inventory resulted in increased carrying charges and higher promotional and advertising expenses, which contributed in a major way to the year's loss.

Ronark is concentrating on PHASE I of "Ronleigh Village" in London. Construction is under way on 46 rental townhouses under the Federal Assisted Rental Program, and on 32 zero lot line houses. In addition, 105 serviced lots were sold to a London builder for a Spring '79 start.

The sales value of uncompleted work on existing projects was \$2.8 million and new construction to be started at the year end was \$6 million.

The residential housing market is in a major recession with an oversupply of low income housing in most areas. Slow growth, high levels of unemployment and continuing inflation, with alarmingly high interest rates, would indicate recovery postponed for at least a year.

Potential contract work, land sales and innovative housing opportunities are being explored in anticipation of heavy competition for a reduced volume of residential sales.

In Florida, Arkton has experienced a buoyant sales market for the cluster homes in "Twelve Oaks." Currently, 51 of the 68 units started are sold and the last 3 cluster homes are to be started early in 1979. Planning is also under way for an early start on the remaining waterfront property which comprises approximately 3 acres zoned for higher density accommodation.

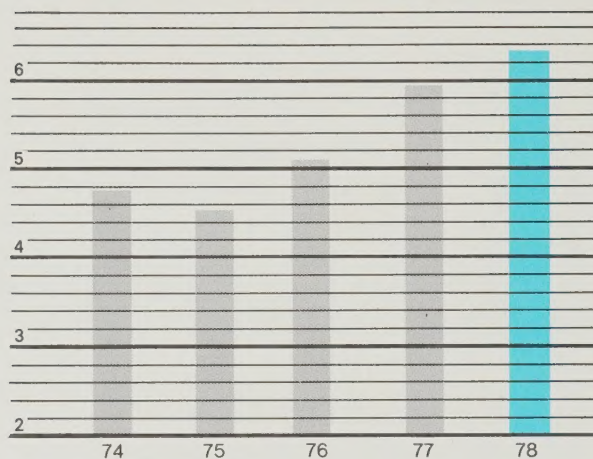
The directors and management wish to express appreciation to our employees. Fleet, in achieving anticipated profitability, has been able to establish a reputation with its customers which puts it in an undisputed position of leadership. Ronark's staff faced a very competitive and discouraging year. Nevertheless, in spite of reduced overhead, extraordinary efforts are being made to obtain a greater percentage of the total market.

R. K. FRASER, President

December 1, 1978

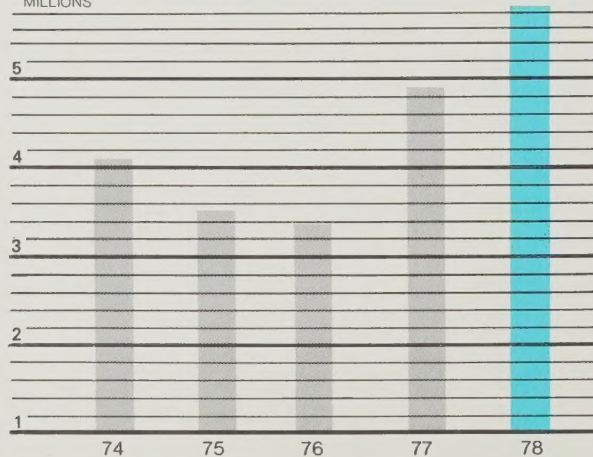
SHAREHOLDERS' EQUITY

MILLIONS



WORKING CAPITAL

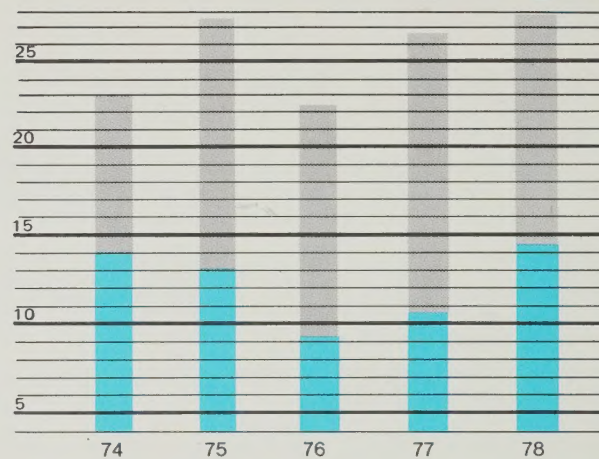
MILLIONS



SALES MANUFACTURING & REAL ESTATE

MILLIONS

RONARK FLEET



ANALYSIS OF MANUFACTURING SALES

DOMESTIC EXPORT



DEFENCE COMMERCIAL



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED SEPTEMBER 30, 1978 (with comparative figures for 1977) (in thousands of dollars)

	1978			1977		
	Manufacturing	Real estate	Total	Manufacturing	Real estate	Total
Income:						
Sales	\$ 14,388	\$ 13,587	\$ 27,975	\$ 10,286	\$ 16,698	\$ 26,984
Other income		58	58		561	561
	<u>14,388</u>	<u>13,645</u>	<u>28,033</u>	<u>10,286</u>	<u>17,259</u>	<u>27,545</u>
Costs and expenses:						
Manufacturing and construction	11,741	12,745	24,486	9,124	14,639	23,763
Administrative and general	1,039	1,067	2,106	883	1,048	1,931
Interest and debt expense	82	413	495	148	203	351
Income taxes (recovery)	640	(190)	450	57	593	650
	<u>13,502</u>	<u>14,035</u>	<u>27,537</u>	<u>10,212</u>	<u>16,483</u>	<u>26,695</u>
Income before income of affiliated companies	886	(390)	496	74	776	850
Income (loss) from affiliated companies		(51)	(51)		9	9
Net income for year	<u>\$ 886</u>	<u>\$ (441)</u>	<u>\$ 445</u>	<u>\$ 74</u>	<u>\$ 785</u>	<u>859</u>
Retained earnings at beginning of year			3,629			2,770
Retained earnings at end of year			<u>\$ 4,074</u>			<u>\$ 3,629</u>
Earnings per common share	<u>\$.35</u>	<u>\$ (.17)</u>	<u>\$.18</u>	<u>\$.03</u>	<u>\$.31</u>	<u>\$.34</u>
Notes: (1) Interest paid during the year on						
— long term debt	\$ 296	\$ 328	\$ 624	\$ 237	\$ 263	\$ 500
— other debt	122	496	618	219	272	491
	<u>418</u>	<u>824</u>	<u>1,242</u>	<u>456</u>	<u>535</u>	<u>991</u>
Less interest and debt expense above	<u>82</u>	<u>413</u>	<u>495</u>	<u>148</u>	<u>203</u>	<u>351</u>
Included in manufacturing and construction costs and inventory (note 1 (d))	<u>\$ 336</u>	<u>\$ 411</u>	<u>\$ 747</u>	<u>\$ 308</u>	<u>\$ 332</u>	<u>\$ 640</u>
(2) Depreciation	<u>\$ 140</u>	<u>\$ 57</u>	<u>\$ 197</u>	<u>\$ 145</u>	<u>\$ 76</u>	<u>\$ 221</u>

See accompanying notes to consolidated financial statements.

RONYX corporation limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 1978 (with comparative figures at September 30, 1977) (in thousands of dollars)

ASSETS

	1978	1977
CURRENT:		
Cash and short term deposits	\$ 161	\$ 637
Condominium deposits in trust	129	82
Accounts receivable	4,468	4,902
Investment in affiliated companies		24
Inventories (notes 1(d) and 2)	13,016	11,099
Prepaid expenses and other current assets	233	159
Total current assets	18,007	16,903
LAND HELD FOR DEVELOPMENT	2,646	3,481
REFUNDABLE LAND-SERVICING DEPOSIT BOND	176	163
MORTGAGES RECEIVABLE — varying maturities to 1980	1,112	144
FIXED (note 3):		
Land, buildings, machinery and equipment, at cost	4,878	4,844
Less accumulated depreciation	3,520	3,396
	1,358	1,448
DEFERRED CHARGES, less amortization (note 1(e))	32	58
On behalf of the Board:		
RONALD K. FRASER, Director	\$ 23,331	\$ 22,197
G. PHILIP MORPHY, Director		

LIABILITIES

	1978	1977
CURRENT:		
Bank indebtedness (note 4)	\$ 2,425	\$ 2,314
Accounts payable and accrued charges	3,222	3,145
Income and other taxes payable	55	94
Mortgages payable on land and housing units under construction	3,658	3,745
Current requirements on long term debt (note 5)	1,735	1,893
Deferred income taxes relating to current assets (note 1(d))	1,075	875
Total current liabilities	12,170	12,066
LONG TERM DEBT (note 5)	4,847	4,262
SHAREHOLDERS' EQUITY:		
Capital stock—		
Common shares without nominal or par value:		
Authorized—5,600,000 shares		
Issued —2,521,000 shares	2,240	2,240
Retained earnings	4,074	3,629
	6,314	5,869
	<u>\$ 23,331</u>	<u>\$ 22,197</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of Ronyx Corporation Limited:

We have examined the consolidated balance sheet of Ronyx Corporation Limited and its subsidiary as at September 30, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants.

Hamilton, Canada
November 23, 1978.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED SEPTEMBER 30, 1978 (with comparative figures for 1977) (in thousands of dollars)

	1978	1977		1978	1977
SOURCE OF FUNDS:			CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Operations—			Increase (decrease) in current assets—		
Net income for year	\$ 445	\$ 859	Cash and short term deposits	\$ (476)	\$ 559
Add (deduct) charges to income not requiring an outlay of funds—			Condominium deposits in trust	47	(467)
Depreciation	197	221	Accounts receivable	(434)	845
Amortization of deferred charges	26	25	Investment in affiliated companies	(24)	(506)
	668	1,105	Inventories	1,917	4,110
Decrease in mortgages receivable		45	Prepaid expenses and other current assets	74	33
Land to be developed in the ensuing year	835	2,089		1,104	4,574
Increase in long term debt	585				
	2,088	3,239			
APPLICATION OF FUNDS:					
Increase in mortgages receivable	968		Increase (decrease) in current liabilities—		
Increase in refundable land-servicing deposit ..	13		Bank indebtedness	111	(574)
New facilities and equipment (net)	107	212	Accounts payable and accrued charges	77	(105)
Decrease in long term debt		1,579	Income and other taxes payable	(39)	(335)
	1,088	1,791	Mortgages payable on land and housing units under construction	(87)	2,169
INCREASE IN WORKING CAPITAL	1,000	1,448	Current requirements on long term debt	(158)	1,420
WORKING CAPITAL BEGINNING OF YEAR	4,837	3,389	Deferred income taxes relating to current assets	200	551
				104	3,126
WORKING CAPITAL END OF YEAR	\$ 5,837	\$ 4,837	INCREASE IN WORKING CAPITAL	\$ 1,000	\$ 1,448

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1978

(1) Accounting policies —

The major accounting principles and practices followed by Ronyx are presented below to assist the reader in evaluating the financial statements:

(a) Basis of consolidation —

The consolidated financial statements as at September 30, 1978 include the accounts of the company's wholly-owned subsidiary, Arkton Corporation Limited. Sanville Realty Limited was wound up during the year and its net assets and operations were transferred to the real estate division of Ronyx Corporation Limited.

(b) Investment in affiliated company:

The investment in an affiliated company (in which Ronyx has a 50% interest) is accounted for on the equity method. The company is in the process of being wound up.

(c) Revenue recognition:

Gross profit on contracts (including programs specifying anticipated requirements but without firm commitments) is recorded as follows —

- (i) On manufacturing contracts or programs extending over one year billable at a fixed price per unit, the proportion of total estimated gross profit for the entire contract or program applicable to the number of units shipped based on the average unit cost for each program estimated to final completion.
- (ii) On other manufacturing contracts completed within the year the actual gross profit applicable to units shipped.
- (iii) On real estate construction contracts, the percentage of completion method. Gross profit on speculative housing construction is recorded as sales are completed.

Estimated losses on contracts are recorded when they become known. In the case of contracts extending over one year revisions in cost and profit estimates are reflected in the accounting period in which the relevant facts become known.

(d) Inventories and land held for development:

Manufacturing division —

Work in progress inventories are valued at the lower of cost or net realizable value with materials and supplies at the lower of average cost or market.

Inventory costs for manufactured products include production financing and tooling costs incurred less costs allocated to delivered items and reduced, where applicable, to realizable market after giving effect to the estimated costs of completion.

In accordance with industry practice, inventoried costs include amounts relating to programs and contracts whose operating cycles extend beyond one year and are classified as current assets with deferred income taxes relating thereto being classified as a current liability.

Real estate division —

The costs in inventory and land held for development for the real estate division include carrying charges on land and housing under construction such as interest on interim and long term financing, real estate taxes and legal fees. Provision is made to reduce carrying values to realizable market.

(e) Deferred charges:

The discount arising from the issue of a 12½% mortgage on Arkton lands at less than face value is being amortized over the life of the mortgage and at September 30, 1978 the unamortized value is \$32,000.

RONYX

(f) Fixed assets:

Additions to fixed assets are recorded at cost. Depreciation is provided at rates which are expected to amortize the assets over their estimated useful life on the diminishing balance basis as follows:

Buildings	5% or 10%
Machinery, furniture and equipment	20%
Automobiles	30%

(g) Income taxes:

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income result in prepaid or deferred taxes.

(h) Pension plans:

The total unamortized past service costs under pension plans of the company which are not reflected in the accompanying financial statements, are being amortized and charged to operations over 15 years (note 7).

(i) Income statement segmentation:

Corporate costs, which are relatively minor in amount, are allocated equally to the two divisions. All other costs are charged directly to the division to which they apply.

(j) Foreign currency translation:

The company uses the temporal method of foreign currency translation such that:

(a) Cash and amounts receivable or payable are translated at the rate of exchange at September 30, 1978.

(b) Assets and liabilities carried at past prices are translated at historical rates and items carried at current prices are translated at the year-end rate.

(c) Revenue and expense items are translated at the rate in effect at the date of the transaction.

Exchange gains and losses are included in the determination of net income for the year.

(2) Inventories —

Inventories consist of the following:

	1978	1977
	(in thousands of dollars)	
Manufacturing —		
Work in progress:		
Commercial contracts	\$ 2,685	\$ 2,506
Defence contracts	3,158	1,784
Raw materials and supplies	1,393	1,202
	7,236	5,492
Less progress payments	2,351	1,337
	4,885	4,155
Real estate —		
Land and housing under construction	6,874	4,927
Land for resale and under development	1,257	2,017
	8,131	6,944
	<u>\$ 13,016</u>	<u>\$ 11,099</u>

Manufacturing —

Under defence contracts the title to inventories is vested in the appropriate governments to the extent of the progress payments received.

Real estate —

(a) The carrying value of the land and housing under construction in Florida is \$4,096,000 at September 30 1978.

(b) In February, 1978 the company stopped work on the construction of an office building in Hamilton and has filed a Claim for Lien for payment of \$426,000 plus interest, costs and damages.

(3) Fixed assets —	1978			1977
	Cost	Accumulated depreciation	Net book value	Net book value
(in thousands of dollars)				
Fixed assets consist of the following:				
Manufacturing division —				
Land (approximately 152 acres in Fort Erie)	\$ 41		\$ 41	\$ 41
Buildings	1,560	\$ 872	688	663
Machinery and equipment	2,754	2,364	390	412
	<u>4,355</u>	<u>3,236</u>	<u>1,119</u>	<u>1,116</u>
Real estate division —				
Sundry	523	284	239	332
	<u>\$ 4,878</u>	<u>\$ 3,520</u>	<u>\$ 1,358</u>	<u>\$ 1,448</u>

(4) Bank indebtedness —

Bank indebtedness includes a loan to the manufacturing division of \$686,000 with interest at prime plus 1% which is repayable on demand. As security the company has given the bank a \$3,000,000 debenture with a first floating charge on all company property and assets and has pledged the book debts and inventory.

(5) Long term debt —

The long term debt consists of the following:

Manufacturing division —	1978	1977
	(in thousands of dollars)	
Capitalized lease agreement with Citicorp Leasing International Inc. for generating equipment, due September 30, 1978		\$ 17
Repayable portion of non-interest bearing federal government assistance payments for purchase of machine tools — due January 30, 1979	\$ 9	19
8¼% mortgage debenture payable to Ontario Development Corporation secured by specific mortgage on the land and buildings, due July 15, 1980	75	110
Term bank loan, with interest based on 1% over the prime bank rate, for the financing of the Lockheed programs, against which the company has provided as security a \$3,000,000 debenture payable on demand with a second floating charge on all company property and assets and a second pledge of accounts receivable and inventories. This loan is repayable in quarterly instalments commencing September 30, 1978 of \$50,000 for the first year, \$62,500 for the second year and \$87,500 per quarter thereafter	3,200	2,250
	<u>3,284</u>	<u>2,396</u>

Forward

RONYX corporation limited

	1978	1977
	(in thousands of dollars)	
Forward		
Real estate —		
Ronyx Corporation Limited:		
9¼% mortgage maturing March 28, 1995, payable at \$614 per month including interest	\$ 66	\$ 60
Mortgages payable on land held for development. Mortgages bear interest at rates from 10¼% to 12¾% and mature at varying dates between September 30, 1979 and December 31, 1979	960	774
Note payable June 30, 1981 with interest at 1½% over the prime rate on commercial loans commencing January 1, 1979	297	423
Note payable with interest at 8½% per annum commencing March 15, 1978. Principal repayments of \$150,000 on March 15, 1978 and \$15,860 monthly including interest commencing April 15, 1980	626	776
Subsidiary:		
Mortgages payable on land for development (repaid in 1978)		539
12¼% mortgage on Phase II lands of Arkton Corporation Limited repayable December 31, 1979. Payments of principal are required before December 31, 1979 for the purpose of obtaining partial discharges to release individual units as they are erected and sold at the rate of \$12,000 per unit	796	890
Debenture payable December 31, 1980 with interest at 4% over prime bank rate	500	250
8½% mortgage maturing January 17, 2002 (repaid during year)		47
9¾% mortgage repayable October 27, 1979 secured by model home furniture	53	
	<u>3,298</u>	<u>3,759</u>
	<u>6,582</u>	<u>6,155</u>
	<u>1,735</u>	<u>1,893</u>
	<u>\$ 4,847</u>	<u>\$ 4,262</u>
Less current requirements		

A condition of the term bank loan in the manufacturing division prohibits the payment of dividends by the company without the consent of the bank. The long term debt repayment requirements for the fiscal years 1979 to 1983 are as follows:
1979 — \$1,735,000; 1980 — \$1,066,000; 1981 — \$998,000; 1982 — \$510,000; 1983 — \$524,000.

These repayment requirements include an estimate of principal pre-payments which will be made to obtain partial discharges of mortgages to provide clear title for individual units as they are erected and sold.

(6) Contingent liabilities —

A subsidiary has an outstanding letter of credit of \$590,000 which is issued as a performance bond regarding a sub-division agreement.

(7) Pension plans —

The unamortized past service costs not reflected in the accompanying financial statements amounted to \$1,947,000 at September 30, 1978 (based on estimates by independent actuaries). Past service costs charged to income in 1978 amounted to \$227,000.

(8) Anti-Inflation —

Under the federal government's anti-inflation program, the company is subject to mandatory compliance with legislation which controls prices and profit margins to September 30, 1978. To the best of management's knowledge, the company is operating in compliance with the regulations.

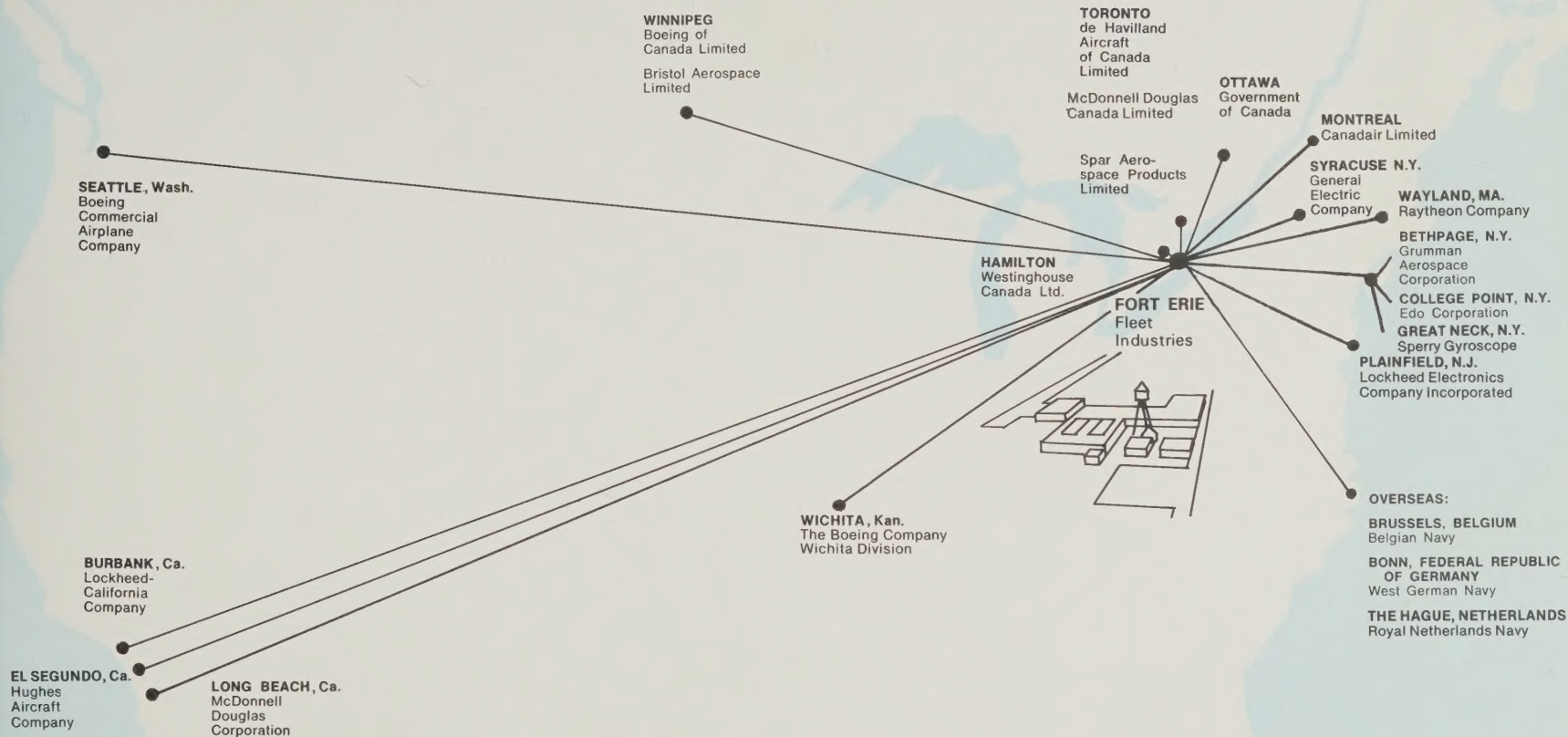
(9) Statutory information —

The aggregate direct remuneration paid or payable by the company and its consolidated subsidiaries to the directors and senior officers of the company as defined by The Business Corporations Act of Ontario amounted to \$288,000 in fiscal 1978.



FLEET industries

SUPPLIERS OF MAJOR COMPONENTS FOR:





RONYX corporation limited

divisions

FLEET industries—transportation, communications

RONARK developments—real estate development